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7

8 UNITED STATES BANKRUPTCY COURT  
9 CENTRAL DISTRICT OF CALIFORNIA  
10 NORTHERN DIVISION  
11

12 In re  
13 HVI CAT CANYON, INC.,  
14 Debtor.  
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Case No.: 9:19-bk-11573-MB

Chapter 11

**TRUSTEE'S NOTICE OF MOTION AND  
MOTION FOR ORDER AUTHORIZING  
AND APPROVING INSURANCE  
PREMIUM FINANCE AGREEMENT;  
MEMORANDUM OF POINTS AND  
AUTHORITIES, DECLARATION OF  
MICHAEL A. MCCONNELL AND  
REQUEST FOR JUDICIAL NOTICE IN  
SUPPORT THEREOF**

Date: January 17, 2020  
Time: 10:00 a.m.  
Place: Courtroom 201  
1415 State Street  
Santa Barbara, California

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**PLEASE TAKE NOTICE** that on January 17, 2020, at 10:00 a.m., Michael A. McConnell, the Chapter 11 trustee (the "Trustee") for the estate of HVI Cat Canyon, Inc. (the "Debtor"), will and hereby does move (the "Motion") for an order authorizing the Trustee to enter into a premium finance agreement (the "PFA") with South Bay Acceptance Corp., or another similar premium finance company (the "Finance Company"),<sup>1</sup> pursuant to which the Trustee will incur credit partially secured by a down payment and the unearned premiums held by the insurance companies whose policies are financed by the Finance Company.

**PLEASE TAKE FURTHER NOTICE** that, in accordance with Federal Rule of Bankruptcy Procedure 4001(b)(1)(A) and (c)(1)(A), the following table summarizes the significant terms of the proposed use of cash collateral and the Second Amendment to the Credit Agreement:<sup>2</sup>

<b>Material Term or Type of Provision</b>	<b>Summary of Provision(s)</b>  (Nearly all of the applicable provisions were approved in the Final Order and are made applicable to the additional advances under the Second Amendment)	<b>Location in Loan Agreement and/or Loan Documents</b>	<b>Location in Proposed Interim Order</b>
Amount	Net amount of premium after deposit.	Page 1	N/A
Interest rate	7.99%	Page 1	N/A
Maturity date	Nine months	Page 1	N/A
Events of default	Non-payment	Page 2	N/A
A grant of priority or a lien on property of the estate under § 364(c) or (d)	lien on all unearned premiums and dividends which may become payable under the policies	Page 2	N/A

<sup>1</sup> If the Trustee obtains more favorable a quote(s), the Trustee will file a supplement to this motion and attach the proposed other agreement(s) before the hearing. The Trustee anticipates that the protections to be afforded above will not materially change.

<sup>2</sup> Because this table is provided, the Trustee requests that the Court waive the requirement in LBR 4001-2 that the Trustee file a separate *Statement Regarding Cash Collateral or Debtor in Possession Financing*.

1	Material Term or Type of Provision	Summary of Provision(s)  (Nearly all of the applicable provisions were approved in the Final Order and are made applicable to the additional advances under the Second Amendment)	Location in Loan Agreement and/or Loan Documents	Location in Proposed Interim Order
2				
3				
4				
5				
6	The providing of	None	N/A	N/A
7	adequate protection or			
8	priority for a claim that			
9	arose before the			
10	commencement of the			
11	case or the use of			
12	property of the estate or			
13	credit obtained under			
14	§ 364 to make cash			
15	payments on account of			
16	the claim			
17				
18	Cross-collateralization –	None	N/A	N/A
19	i.e., clauses that secure			
20	prepetition debt by			
21	postpetition assets in			
22	which the secured party			
23	would not otherwise			
24	have a security interest			
25	by virtue of its			
26	prepetition security			
27	agreement or applicable			
28	law			
29				
30	Roll-up – i.e., provisions	None	N/A	N/A
31	deeming prepetition			
32	debt to be postpetition			
33	debt or using			
34	postpetition loans from			
35	a prepetition secured			
36	party to pay part or all			
37	of that secured party's			
38	prepetition debt, other			
39	than as provided in			
40	§ 552(b)			
41				
42	Grant a replacement lien	None	N/A	N/A
43	in an amount in excess			
44	of the dollar amount of			
45	the lien on cash			
46	collateral as of the			
47	petition date			
48				
49	A determination of the	None	N/A	N/A
50	validity, enforceability,			

Material Term or Type of Provision	Summary of Provision(s)  (Nearly all of the applicable provisions were approved in the Final Order and are made applicable to the additional advances under the Second Amendment)	Location in Loan Agreement and/or Loan Documents	Location in Proposed Interim Order
priority, or amount of a claim that arose before the commencement of the case, or of any lien security the claim			
A waiver or modification of Code provisions or applicable rules relating to the automatic stay	Authority to terminate the financed Insurance Policies, without requiring that the Finance Company seek relief from the automatic stay, in the event of a Default on the repayment obligations.	N/A	Order
Automatic relief from the automatic stay upon occurrence of certain events	Authority to terminate the financed Insurance Policies, without requiring that the Finance Company seek relief from the automatic stay, in the event of a Default on the repayment obligations.	N/A	Order
A waiver or modification of any entity's authority or right to file a plan, seek an extension of time in which the debtor has the exclusive right to file a plan, request the use of cash collateral under § 363(c), or request authority to obtain credit under § 364	None	N/A	N/A
The establishment of deadlines for filing a plan of reorganization, for approval of a disclosure statement, for a hearing on	None	N/A	N/A

1	Material Term or Type of Provision	Summary of Provision(s)  (Nearly all of the applicable provisions were approved in the Final Order and are made applicable to the additional advances under the Second Amendment)	Location in Loan Agreement and/or Loan Documents	Location in Proposed Interim Order
2	confirmation, or for entry of a confirmation order			
3	A waiver or modification of the applicability of nonbankruptcy law relating to the perfection of a lien on property of the estate, or on the foreclosure or other enforcement of the lien	None	N/A	N/A
4	A release, waiver, or limitation on any claim or other cause of action belonging to the estate or the trustee, including any modification of the statute of limitations or other deadline to commence an action	None	N/A	N/A
5	The indemnification of any entity	None	N/A	N/A
6	A release, waiver, or limitation of any right under § 506(c)	None	N/A	N/A
7	The granting of any lien on any claim or cause of action arising under § 506(c)	None	N/A	N/A
8	The granting of a lien on any claim or cause of action arising under §§ 544, 545, 547, 548, 549, 553(b), 723(a), or 724(a)	None	N/A	N/A
9	With respect to a professional fee carve	None	N/A	N/A



Material Term or Type of Provision	Summary of Provision(s)  (Nearly all of the applicable provisions were approved in the Final Order and are made applicable to the additional advances under the Second Amendment)	Location in Loan Agreement and/or Loan Documents	Location in Proposed Interim Order
out, disparate treatment for professionals retained by a creditors' committee from that provided for the professionals retained by the debtor			
Pay down prepetition principal owed to a creditor	None	N/A	N/A
Findings of fact on matters extraneous to the approval process	None	N/A	N/A
Other	None.	N/A	N/A

The Trustee reserves the right to enter into premium financing agreements in the future with the Financing Company or similar premium financing companies until the time of the hearing on this Motion. If the Trustee pursues that path, he will file a supplement to this motion and serve notice thereof upon the same parties served with this motion.

This Motion is based upon the accompanying Memorandum of Points and Authorities, the accompanying Declaration of Michael A. McConnell and the Request for Judicial Notice, the papers and pleadings on file in this case, and such other evidence that may be presented to the Court.

**PLEASE TAKE FURTHER NOTICE** that, pursuant to Local Bankruptcy Rule 9013-1(a)(7), any opposition to the Motion must be in writing in the format required by the Local Bankruptcy Rules, filed with the Clerk of the Court and served upon counsel for the Trustee, at the address in the upper left corner of the face of this Notice, upon the United States Trustee, 1415 State Street, Suite 148, Santa Barbara, California 93101, not less than fourteen (14) days

1 before the hearing. Failure to comply with this procedure may be deemed consent to the granting  
2 of the relief requested.

3  
4 DATED: December 24, 2019

DANNING, GILL, ISRAEL & KRASNOFF, LLP

5  
6 By: 

7 AARON E. DE LEEST  
8 Attorneys for Michael A. McConnell,  
9 Chapter 11 Trustee  
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**MEMORANDUM OF POINTS AND AUTHORITIES**

**I.**

**BACKGROUND FACTS**

**A. The Bankruptcy Case**

The Debtor is a Colorado corporation authorized to conduct business in the State of California. It is the owner and operator of producing oil and gas wells in California. The wells are located in Santa Barbara County, Orange County and Kern County.

On July 25, 2019, the Debtor filed a voluntary petition for relief under Chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). The case was originally filed in the Southern District of New York. The case was transferred to the Northern District of Texas, and then later to the Central District of California.

On or about August 9, 2019, an Official Creditor’s Committee was appointed.

The Debtor initially operated its business as a “debtor in possession,” until on or about October 16, 2019, when the Court entered its Agreed Order Granting Motion for Appointment of a Chapter 11 Trustee.

On or about October 22, 2019, the Court approved the appointment of Michael A. McConnell as the Chapter 11 trustee in this case.

**B. Insurance and the Premium Finance Agreement**

Prior to the Trustee’s appointment, the Debtor’s affiliate GIT, Inc. (“GIT”) obtained insurance for the Debtor, including, but not limited to general liability, property, and workers’ compensation (collectively the “Insurance Policies”). The Debtor paid GIT for the cost of such insurance as part of the services that GIT provided to the Debtor pursuant to the Amended and Restated General & Administrative Services Agreement, purportedly entered into on August 1, 2009, as amended, including, most recently on July 1, 2019 (collectively the “GIT Agreements”).

Following the Trustee’s appointment, the Debtor’s Insurance Policies came up for renewal on December 1, 2019 and December 21, 2019, respectively, and the Trustee determined to renew the policies for the Debtor directly, rather than go through GIT. That decision is part of the

Trustee's goal of disentangling the Debtor from its affiliates, which he anticipate will aid in the marketability of the Debtor. Contemporaneously herewith, the Trustee is filing a motion to reject the GIT Agreements. The Insurance Policies are required by the Office of the United States Trustee and are essential to the Debtor's operations and to the preservation of its property and assets. A copy of the certificate of insurance for the Insurance Policies is attached as Exhibit "2" hereto.

The Trustee has decided to finance the renewal premiums using an independent third party and, in order to finance the premiums due under the Insurance Policies, the Trustee hereby seeks authority to enter into a Premium Finance Agreement ("PFA") with South Bay Acceptance Corp., and/or another premium finance company, on similar terms on terms (the "Finance Company"). A copy of the form PFA with the Finance Company is attached as Exhibit "3" to the Trustee's Declaration. The attached agreement does not yet include payment of the premium for the workers' compensation policy. However, the Trustee will file a supplement to this Motion, prior to the hearing, with a revised PFA or separate additional PFA, on similar terms, for the workers' compensation premium.

**1. The Proposed Premium Financing**

With respect to the general liability, property, and excess liability policies<sup>3</sup> only, the PFA provides for the Trustee to borrow the funds necessary for the premiums on the following terms:

Term	Amount
Total Premiums	\$150,976.40
Cash Down Payment	\$46,013.90
Amount Financed	\$104,962.50
Finance Charge	\$3,525.30
Total of Payments	\$108,487.80

<sup>3</sup> A supplement will be filed prior to the hearing on the Motion with the terms relating to the PFA for the workers' compensation policy.

Interest Rate (APR)	7.99%
No. of Monthly Payments	9
Payment Amount	\$12,054.20

**2. Additional Protection Terms Under the PFA**

In addition to the payment terms described above, the Finance Company requires that it be provided certain security interests in exchange for the PFA. Accordingly, as is customary, the PFA requires that the Trustee submit a down payment (the "Down Payment") in order to secure future monthly payments and that the Trustee provide the Finance Company a security interest in any and all unearned premiums and dividends which may become payable under the Insurance Policies (the "Unearned Premiums").

Pursuant to the terms of the PFA, attached as Exhibit "3" to the Trustee's Declaration, as the Trustee understands is also customary, the Trustee is also appointing the Finance Company as its attorney-in-fact with the irrevocable power to cancel the Insurance Policies and collect the Unearned Premiums in the event of a default of its obligations under the PFA.

It is also likely, due to the Debtor's bankruptcy filing, that the Finance Company will request that: (1) it be authorized to apply for the cancellation of the financed Insurance Policies and obtain the return of the Unearned Premiums, in the event of a default (as set forth in more detail in the PFA) of any installment due under the PFA ("Default"), without further Court order or lifting of the automatic stay, to the extent permitted under applicable law; and (2) that any deficiency balance remaining under the PFA attributable to a Default, after application of the Unearned Premiums and Down Payment, be allowed in this case as an administrative expense against the Debtor's estate, under Bankruptcy Code section 503. The Trustee does not oppose these terms and seeks Court approval thereof as part of this Motion.

The Trustee believes that these the above terms and the terms of the PFA are commercially fair and reasonable including the granting of a lien on the Insurance Policies to the Finance Company. The estate is required to maintain adequate insurance coverage and, without it, would be forced to cease operations. The Trustee is informed and believes that the Debtor's affiliate, GIT,

1 may have in previous years financed the Debtor's insurance policies, which the Debtor paid for  
2 monthly to GIT. The Trustee is also informed and believes that such financing for large annual  
3 insurance premiums is not unusual.

4 The Trustee submits that authorization of the PFA will ensure that the Debtor can continue  
5 necessary operations, and will not prejudice the legitimate interests of creditors and other parties in  
6 interest, including Debtor's secured creditors. The Trustee respectfully requests that the Court  
7 enter the order approving the PFA, substantially in the form of Exhibit "1" to the Trustee's  
8 Declaration.

9  
10 **C. PRIOR FINANCING AND CASH COLLATERAL ORDERS**

11 Pursuant to the Court's *Final Order for Emergency Priming and Superpriority Financing*  
12 *and Consensual Use of Cash Collateral by the Chapter 11 Trustee* (docket no. 572) (the "Final  
13 Order"), entered on or about November 27, 2019, the Trustee was authorized, pursuant to the terms  
14 of the Final Order and a written loan facility set forth in a written credit agreement (the "Credit  
15 Agreement"), to borrow funds from UBS AG, Stamford Branch ("UBS AG, Stamford") and use  
16 the cash collateral of the Debtor's existing senior secured lender, UBS AG, London Branch ("UBS  
17 AG, London"), among others. UBS AG, Stamford and UBS AG, London, are, taken together,  
18 referred to herein as "UBS. " Pursuant to the Final Order, to secure its new advances, UBS was  
19 granted a Superpriority administrative expense claim and priming lien on all assets of the Debtor's  
20 estate, both existing and future acquired assets, including lien on certain avoidance actions, but  
21 junior to *ad valorem* tax lien of Santa Barbara County to the extent provided in the Final Order.

22 Thereafter, on or about December 20, 2019 (*docket no. 650*), the Court entered an order  
23 authorizing the Trustee's continued postpetition borrowing and use of cash collateral on the same  
24 terms as set forth in the Final Order, on an interim basis, in accordance with the Trustee's proposed  
25 budget that is attached as Exhibit "4" to the Trustee's Declaration (the "Second Budget").

26 The Second Budget did not expressly include a line item for paying the Down Payment for  
27 the Insurance Premiums or the payments to the Finance Company. However, there is room in the  
28 unallocated portion of the Second Budget to cover the Down Payment and monthly payments.

1 The Trustee has requested permission from UBS to use unallocated funds to pay the Down  
2 Payment and monthly payments for the Insurance Premiums, and for its consent to grant the  
3 Finance Company a first lien on the Unearned Premiums and Down Payment.

4  
5 **II.**

6 **ARGUMENT**

7 **A. ENTERING INTO A FINANCING AGREEMENT AUTHORIZED BY THE**  
8 **BANKRUPTCY CODE AND RULES IS IN THE BEST INTEREST OF THE**  
9 **ESTATE**

10 The Trustee requires insurance in order to operate the Debtor's business. The Insurance  
11 Policies at issues are for the Debtor's general liability, property, excess liability and workers'  
12 compensation. The maintenance of these Insurance Policies is necessary for the Debtor's ongoing  
13 business operations, and pursuant to the Notice of Requirements for Chapter 11 Debtors in  
14 Possession promulgated by the Office of the United States Trustee (the "UST Guidelines").

15  
16 **1. The Debtor Should be Authorized to Incur Secured and Unsecured Debt from**  
17 **Finance Company under the PFA Pursuant § 364**

18 **(a) The Secured Debt Under the PFA is Authorized by § 364(c)**

19 The aggregate annual premiums for the general liability, property, and excess liability  
20 policies total \$150,976.40. The Trustee has not yet received the final quote for the workers'  
21 compensation policy. The Trustee does not believe that it would be prudent to pay the full amount  
22 of these premiums, in cash, at this time. To the contrary, the Trustee believes as a matter of  
23 business judgment that he should finance a substantial portion of these premiums. Accordingly, the  
24 Trustee seeks to enter into the PFA, which provides for certain security interests to be granted to  
25 the Finance Company in the Unearned Premiums and Down Payment.

26 Sections 364(c) provides, in pertinent part, that

27 (c) If the trustee is unable to obtain unsecured credit allowable under section  
28 503(b)(1) of this title as an administrative expense, the court, after notice and a  
hearing, may authorize the obtaining of credit or the incurring of debt—

(1) with priority over any or all administrative expenses of the kind specified in section 503(b) or 507(b) of this title; [or]

(2) secured by a lien on property of the estate that is not otherwise subject to a lien....

11 U.S.C. § 364(c).

Courts have uniformly recognized that a debtor (or trustee) may, in the exercise of business judgment, incur secured debt where the debtor has been unable to obtain unsecured credit and the borrowing is in the best interest of the estate. *See, e.g., In re Snow Shoe Company*, 789 F.2d 1085, 1088 (4th Cir. 1986); *In re Ames Dep't. Stores, Inc.*, 115 B.R. 34, 35-38 (Bankr. S.D.N.Y. 1990); *In re AAA Produce Co.*, 58 B.R. 430, 432-34 (Bankr. E.D. Mo. 1986). *See also* 3 Lawrence P. King, *Collier on Bankruptcy* § 364.04 (15th ed. rev. 2016).<sup>4</sup> The power of the debtor in possession to incur secured debt follows necessarily from the general power of the debtor in possession to operate its business in the exercise of its business judgment. *See* 11 U.S.C. § 1108; *Ames Dep't. Stores*, 115 B.R. at 37-38. Without the ability to incur secured debt, the debtor in possession would be placed at a significant competitive disadvantage and its efforts to reorganize could be seriously impaired.

The extension of secured credit is authorized by Section 364(c). The Trustee has determined that he is unable to obtain fully unsecured credit for the purposes of premium financing. The Finance Company requires certain financial protections, as is the standard practice among companies providing premium finance loans, including a security interest in the Unearned Premiums.

---

<sup>4</sup> *Id.* ("Some courts apply a three-part test to assess [trustee or] debtor in possession financing requests under section 364(c), requiring a showing that (1) the debtor cannot obtain credit unsecured or without superpriority status under section 364(b), (2) the credit transactions are necessary to preserve assets of the estate and (3) the terms of the transactions are fair, reasonable and adequate, given the circumstances of the [ ] borrower and the proposed lender.") (citing *In re Los Angeles Dodgers LLC*, 457 B.R. 308, 312-13 (Bankr. D. Del. 2011)). Here, as demonstrated, unsecured or non-superpriority lending is unavailable, the transaction is necessary to maintain the Debtor's business as a going concern, and the transaction is fair and reasonable, satisfying the three factors.



1 (b) The Unsecured Debt Under the PFA is Authorized by § 364(a) and (b)

2 In addition to granting the Finance Company certain postpetition security interests, the  
3 Trustee requests authority to incur unsecured debt as an administrative expense to the Finance  
4 Company for any remaining amounts due under the PFA as set forth above.

5 Section 364(a) and (b) provides, in pertinent part, that:

6 (a) If the trustee is authorized to operate the business of the debtor under  
7 section...1108...of this title, unless the court orders otherwise, the trustee may  
8 obtain unsecured credit and incur unsecured debt in the ordinary course of business  
allowable under section 503 (b) (1) of this title as an administrative expense.

9 (b) The court, after notice and hearing, may authorize the trustee to obtain unsecured  
10 credit or to incur unsecured debt other than under subsection (a) of this section,  
allowable under section 503(b)(1) of this title as an administrative expense.

11 11 U.S.C. § 364(a) and (b).

12 Bankruptcy Code Section 503(b)(1)(A) provides, in pertinent part, that: "After notice and  
13 hearing, there shall be allowed, administrative expenses . . . including . . . the actual, necessary  
14 costs and expenses of preserving the estate." 11 U.S.C. § 503(b)(1)(A).

15 The incurrence of unsecured debt is directly authorized by § 364. The Trustee believes that  
16 the estate's incurrence of unsecured debt in connection with the PFA is in the ordinary course of  
17 the Debtor's business and is allowable under § 503(b)(1) as an administrative expense, as set forth  
18 more fully below.

19 Therefore, because entry into the PFA is in the ordinary course of business, the Trustee  
20 should be allowed to incur the unsecured debt under the PFA without the necessity of Court order  
21 pursuant to Bankruptcy Code Section 364(a). Moreover, even if this Court were to determine that  
22 the incurrence of unsecured debt in connection with the PFA would not be in the ordinary course of  
23 the Debtor's business, the Trustee requests that the Court approve the incurrence of such unsecured  
24 debt pursuant to Section 364(b), as the maintenance of the Insurance Policies clearly provide the  
25 requisite benefit to the estate under Section 503(b)(1) as the Trustee cannot operate the Debtor's  
26 business without insurance.

1           **2.     The Debtor Should Be Authorized to Provide the Requested Protections to**  
2                                   **Finance Company in the Event of a Default under the PFA Pursuant to Fed. R.**  
3                                   **Bankr. P. 4001(d) and § 503(b)**

4                   **(a)   The Finance Company's Authorization to Cancel the Insurance Policies**  
5                                   **in the Event of a Default under the PFA is Authorized by Rule 4001(d)**

6           In addition to the approval of the incurrence of secured and unsecured debt in connection  
7 with the PFA, the Trustee requests that the Court grant the Finance Company the authority to  
8 terminate the financed Insurance Policies, without requiring that the Finance Company seek relief  
9 from the automatic stay, in the event of a Default on the repayment obligations under the PFA.  
10 Although the Bankruptcy Code does not expressly refer to agreements relating to relief from the  
11 automatic stay, "[t]hese types of agreements are subject to Fed. R. Bankr. P. 4001(d)(3) which by  
12 its express terms authorizes a bankruptcy court to approve or disapprove such agreements in the  
13 absence of an objection," or to hold a hearing to consider such agreement if an objection is filed.  
14 *In re Gallegos Research Group*, 193 B.R. 577, 583 (Bankr. D. Colo. 1995); Fed. R. Bankr. P.  
15 4001(d). Therefore, the Bankruptcy Rules clearly contemplate the Court's consideration of such  
16 relief.

17           This form of relief is commonly included in relation to the extension of credit to a debtor or  
18 estate and is in the best interest of the estate for the reasons outlined above.

19  
20                   **(b)   The Finance Company's Right to Receive an Administrative Claim for**  
21                                   **Any Deficiency Under the PFA is Authorized by § 503(b)**

22           The Trustee also requests that any deficiency balance remaining under the PFA, after  
23 application of the Unearned Premiums and down payment, be allowed in this case as an  
24 administrative expense against the Debtor's estate under Section 503(b)(1)(A) of the Bankruptcy  
25 Code.

26           Maintenance of the Insurance Policies is a necessary cost of preserving the estate, and is  
27 required by the UST Guidelines. Courts have recognized that the maintenance of insurance  
28 required for the operation of a business is an actual, necessary cost of preserving a debtor's estate,

1 and debt incurred in connection with such policies is therefore entitled to administrative priority for  
2 such premiums. *See, e.g., In re Payless Cashways, Inc.*, 305 B.R. 303, 308 (Bankr. W.D. Mo.  
3 2004) (providing insurance coverage postpetition entitles the insurer to an administrative expense  
4 claim). This is the case, even where such insurance policies are merely a continuation of policies  
5 entered into prior to the petition date, to the extent such insurance policies provide benefit to the  
6 debtor during the postpetition period. In *Potter v. CNA Ins. Co.*, 106 F.3d 829, 832 (8th Cir. 1997),  
7 the Eighth Circuit stated that:

8 [A]dministrative priority is limited to transactions with the debtor in possession. But  
9 in our view the absence of a 'positive post-petition act' by [the trustee or debtor in  
10 possession] does not make the continued [insurance] coverage a pre-petition claim.  
11 [The] debtor in possession could have terminated the insurance . . . [but] did not do  
12 so and thereby obtained an insurance product essential to its post-petition  
operations. In these circumstances, [the insurer] is entitled to administrative expense  
priority for the pro rata share of the premium, during the period in which the estate  
received benefits from the [insurance] contract").

13 *Potter*, 106 F.3d 832. *See also In re Gamma Fishing Co.*, 70 B.R. 949, 955 (Bankr. S.D. Cal.  
14 1987) (a debtor receiving necessary benefits from a prepetition executory insurance contract must  
15 accord the non-debtor party an administrative expense priority for the pro rata share of the  
16 premium, during the period in which the estate received benefits from the contract). Entitlement to  
17 an administrative expense claim is even stronger here, where the Insurance Policies are renewed  
18 postpetition.

19 Therefore, any deficiency under the PFA should be allowed by this Court as an  
20 administrative expense pursuant to § 503(b)(1)(A).

21  
22 (c) **The Court Should Find that the Finance Company is a Bona Fide**  
23 **Lender within the Meaning of Section 364(e).**

24 The Finance Company is a third-party finance company. The Trustee is not aware of any  
25 relationship between the Debtor and the Finance Company, and the Trustee has no relationship  
26 with the Finance Company. The PFA was obtained at arm's length and through an insurance  
27 broker. Finding that the Finance Company is a good faith lender within the meaning of § 364(e)  
28

1 will afford protection to the Finance Company and the Trustee in the event that there is an appeal.  
2 The Trustee respectfully requests that the Court make that finding.  
3

4 **B. THE COURT SHOULD AUTHORIZE THE TRUSTEE TO USE CASH**  
5 **COLLATERAL PURSUANT TO THE SECOND BUDGET**

6 As set forth above, the Court previously authorized the Trustee to use cash collateral  
7 including, most recently, on an interim basis, within the limits of the Second Budget. The Second  
8 Budget has sufficient room in the operating expense category to provide for payment of the Down  
9 Payment and monthly payments to the Finance Company. To the extent necessary, the Trustee  
10 requests that he be permitted to use cash collateral so that he may make the Down Payment and  
11 monthly payments for the PFA under the Second Budget. UBS, and other secured creditors, are  
12 adequately protected by the liens previously granted by the Court in the Final Order, further interim  
13 order, and the preservation of the estate's assets and the business as an ongoing concern. In  
14 addition, the Trustee has requested UBS' consent. The Debtor's junior secured creditors are not  
15 entitled to adequate protection because their secured liens are "out of the money" in light of the \$50  
16 to \$75 million valuation of the Debtor's assets and are entirely unsecured pursuant to 11 U.S.C. §  
17 506(a). The counties (i.e., Santa Barbara, Orange and Kern Counties) real property tax liens are  
18 entirely unaffected because their liens do not attach to the Down Payment and Unearned Premiums.  
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III.

CONCLUSION

For the foregoing reasons, the Trustee respectfully requests that the Court enter the order, substantially in the form of Exhibit "1" to the Trustee's Declaration, authorizing and approving the Trustee to enter into one or more PFAs with the Finance Company, as well as the other relief provided for therein. The Trustee also requests such further relief as the Court deems just and proper.

DATED: December 24, 2019

DANNING, GILL, ISRAEL & KRASNOFF, LLP

By: 

AARON E. DE LEEST  
Attorneys for Michael A. McConnell,  
Chapter 11 Trustee

**DECLARATION OF MICHAEL A. MCCONNELL**

I, Michael A. McConnell, declare as follows:

1. I am over eighteen years of age, and I have personal knowledge of the facts in this declaration and, if called as a witness, could testify competently that the facts stated in this declaration are true and correct to the best of my knowledge and information.

2. I am the Chapter 11 Trustee of the Bankruptcy Estate of HVI Cat Canyon, Inc. (the "Debtor").

3. The Debtor is a Colorado corporation authorized to conduct business in the state of California. It is the owner and operator of producing oil and gas interests in California. The wells are located in Santa Barbara County, Orange County, and Kern County.

4. On or about October 22, 2019, the Court approved my appointment as the Chapter 11 trustee in this case.

5. Prior to my appointment, the Debtor's affiliate GIT, Inc. ("GIT") obtained insurance for the Debtor, including, but not limited to general liability, property, excess liability, and workers' compensation (collectively the "Insurance Policies").

6. The Debtor paid GIT for the cost of such insurance as part of the services that GIT provided to the Debtor pursuant to the Amended and Restated General & Administrative Services Agreement, purportedly entered into on August 1, 2009, as amended, including, most recently on July 1, 2019.

7. Following my appointment, the Debtor's Insurance Policies came up for renewal on December 1, 2019 and December 21, 2019, respectively, and I determined to renew the policies for the Debtor directly, rather than go through GIT. The Insurance Policies are required by the Office of the United States Trustee and are essential to the Debtor's operations and to the preservation of its property and assets. A copy of the certificate of insurance for the Insurance Policies is attached as Exhibit "2" hereto.

8. I have decided to finance the renewal premiums using an independent third party and, in order to finance the premiums due under the Insurance Policies, I believe, in my business judgement, that I must seek authority to enter into a Premium Finance Agreement ("PFA") with

1 South Bay Acceptance Corp., and/or another premium finance company, on similar terms on terms  
2 (the "Finance Company"). A copy of the form PFA with the Finance Company is attached as  
3 Exhibit "3" hereto. The attached agreement does not yet include payment of the premium for the  
4 workers' compensation policy. However, I will file a supplement to this Motion, prior to the  
5 hearing, with a revised PFA or separate additional PFAs, on similar terms, for the workers'  
6 compensation premium.

7 9. With respect to the general liability, property, and excess liability policies, only, the  
8 PFA provides for the estate to borrow the funds necessary for the premiums on the following terms:

Term	Amount
Total Premiums	\$150,976.40
Cash Down Payment	\$46,013.90
Amount Financed	\$104,962.50
Finance Charge	\$3,525.30
Total of Payments	\$108,487.80
Interest Rate (APR)	7.99%
No. of Monthly Payments	9
Payment Amount	\$12,054.20

19  
20 10. In addition to the payment terms described above, the Finance Company may  
21 require that it be provided certain security interests in exchange for the PFA. Accordingly, the PFA  
22 requires that the Debtor submit a down payment (the "Down Payment") in order to secure future  
23 monthly payments and that the Debtor provide the Finance Company a security interest in any and  
24 all unearned premiums and dividends which may become payable under the Insurance Policies (the  
25 "Unearned Premiums").

26 11. Pursuant to the terms of the PFA, the Finance Company is also being appointed as  
27 an attorney-in-fact with the irrevocable power to cancel the Insurance Policies and collect the  
28 Unearned Premiums in the event of a default of its obligations under the PFA.

12. It is also likely, due to the Debtor's bankruptcy filing, that the Finance Company will request that: (1) it be authorized to apply for the cancellation of the financed Insurance Policies and obtain the return of the Unearned Premiums, in the event of a default (as set forth in more detail in the PFA) of any installment due under the PFA ("Default"), without further Court order or lifting of the automatic stay, to the extent permitted under applicable law; and (2) that any deficiency balance remaining under the PFA attributable to a Default, after application of the Unearned Premiums and Down Payment, be allowed in this case as an administrative expense against the Debtor's estate, under Bankruptcy Code section 503. I do not oppose these terms and seeks Court approval thereof as part of the underlying motion.

13. I believe that these terms and the terms of the PFA are commercially fair and reasonable including the granting of a lien on the Insurance Policies to the Finance Company. I have been unable to obtain unsecured credit to fund the Insurance Policies and believe the terms in the PFA are reasonable. I am informed and believe that such premium financing is not unusual.

14. Furthermore, the estate is required to maintain adequate insurance coverage and, without it, I would be forced to cease operations of the Debtor. I am informed and believe that the Debtor's affiliate, GIT, may have in previous years financed the Debtor's insurance policies, which the Debtor paid for monthly to GIT.

15. I submit that authorization of the PFA or PFAs on similar terms will ensure that the Debtor can continue necessary operations, and will not prejudice the legitimate interests of creditors and other parties in interest, including Debtor's secured creditors.

16. I am not aware of any relationship between the Debtor and the Finance Company, and I have no relationship with the Finance Company. The PFA was obtained at arm's length and through an insurance broker. I believe that it is appropriate for the Court to find that FIRST are good faith lenders within the meaning of 11 U.S.C. § 364(e).

17. Finally, I was previously authorized to use cash collateral including, in the Court's *Final Order for Emergency Priming and Superpriority Financing and Consensual Use of Cash Collateral by the Chapter 11 Trustee* (docket no. 572) (the "Final Order"), entered on or about November 27, 2019, and, again, on an interim basis, in the Court's *Interim Order Approving*



1 *Second Amendment to the Credit Agreement (docket no. 650)*, entered on or about December 20,  
2 2019, within the limits of the Second Budget. A true and correct copy of the Second Budget  
3 approved by the Court on an interim basis is attached as Exhibit "4" hereto.

4 18. The Second Budget did not expressly include a line item for paying the Down  
5 Payment for the Insurance Premiums or the payments to the Finance Company. However, I believe  
6 there is room in the unallocated portion of the Second Budget to cover the Down Payment and  
7 monthly payments.

8 19. I have requested permission from the Debtor's senior secured lender and  
9 postpetition lender, UBS, to use unallocated funds in the Second Budget to pay the Down Payment  
10 and monthly payments for the Insurance Premiums, and for its consent to grant the Finance  
11 Company a first lien on the Unearned Premiums and Down Payment. Pursuant to the Final Order  
12 UBS was granted a Superpriority administrative expense claim and priming lien to secure the new  
13 advances on all assets existing and future acquired of the Debtor's estate, including lien on certain  
14 avoidance actions, but junior to *ad valorem* tax lien of Santa Barbara County to the extent provided  
15 in the Final Order.

16 20. To the extent necessary, I request that I be permitted to use cash collateral so that I  
17 may pay the Down Payment and monthly payments for the PFA under the Second Budget. I  
18 believe that UBS, and other secured creditors, are adequately protected by the liens previously  
19 granted by the Court in the Final Order, further interim order, and the preservation of the estate's  
20 assets and the business as an ongoing concern. I do not believe that the Debtor's junior secured  
21 creditors are entitled to adequate protection because their secured liens are "out of the money" in  
22 light of the \$50 to \$75 million valuation of the Debtor's assets and are entirely unsecured pursuant  
23 to 11 U.S.C. § 506(a).

24 ///

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Executed on December 24, 2019 at Fort Worth, Texas.

23

**REQUEST FOR JUDICIAL NOTICE**

Michael A. McConnell, the Chapter 11 trustee (the "Trustee") for the estate of HVI Cat Canyon, Inc. (the "Debtor"), requests that the Court take judicial notice of the following:

1. On July 25, 2019, the Debtor filed a voluntary petition for relief under Chapter 11 of title 11 of the United States Code.

2. The Debtor filed its petition in the Southern District of New York. The case was transferred to the Northern District of Texas, and then later to the Central District of California.

3. The Debtor initially operated its business as a "debtor in possession."

4. On or about August 9, 2019, an Official Creditor's Committee was appointed.

5. On or about September 9, 2019, the Debtor filed its schedule G (*docket no. 171*), which

6. On or about October 16, 2019, the Court entered its Agreed Order Granting Motion for Appointment of a Chapter 11 Trustee.

7. On or about October 22, 2019, the Court approved the appointment of Michael A. McConnell as the Chapter 11 trustee in this case.

8. On or about November 27, 2019, the Court entered its *Final Order for Emergency Priming and Superpriority Financing and Consensual Use of Cash Collateral by the Chapter 11 Trustee* (*docket no. 572*).

9. On or about December 20, 2019, the Court entered its *Interim Order Approving Second Amendment to the Credit Agreement* (*docket no. 650*).

DATED: December 24, 2019

DANNING, GILL, ISRAEL & KRASNOFF, LLP

By: 

AARON E. DE LEEST  
Attorneys for Michael A. McConnell,  
Chapter 11 Trustee

EXHIBIT 1

1 ERIC P. ISRAEL (State Bar No. 132426)  
*eisrael@DanningGill.com*  
2 AARON E. DE LEEST (State Bar No. 216832)  
*adeleest@DanningGill.com*  
3 DANNING, GILL, ISRAEL & KRASNOFF, LLP  
1901 Avenue of the Stars, Suite 450  
4 Los Angeles, California 90067-6006  
Telephone: (310) 277-0077  
5 Facsimile: (310) 277-5735  
  
6 Attorneys for Michael A. McConnell,  
Chapter 11 Trustee  
7

8 **UNITED STATES BANKRUPTCY COURT**  
9 **CENTRAL DISTRICT OF CALIFORNIA**  
10 **NORTHERN DIVISION**

11 In re  
12 HVI CAT CANYON, INC.,  
13 Debtor.

Case No.: 9:19-bk-11573-MB

Chapter 11

**ORDER GRANTING TRUSTEE'S  
MOTION FOR ORDER AUTHORIZING  
AND APPROVING INSURANCE  
PREMIUM FINANCE AGREEMENT**

Date: January 17, 2020  
Time: 10:00 a.m.  
Place: Courtroom 201  
1415 State Street  
Santa Barbara, California

19 On January 17, 2020, at 10:00 a.m., there came before the Court for hearing the motion  
20 (*docket no. \_\_\_\_*) (the "Motion") filed by Michael A. McConnell, the Chapter 11 trustee (the  
21 "Trustee") for the estate of HVI Cat Canyon, Inc. (the "Debtor"), for an order authorizing the  
22 Trustee to enter into a premium finance agreement (the "PFA") with South Bay Acceptance Corp.,  
23 or similar premium finance company (the "Finance Company").

24 Eric P. Israel of Danning, Gill, Israel & Krasnoff, LLP appeared on behalf of the Trustee.  
25 Other appearances were as noted on the record.  
26

27 The Court having read and considered the Motion and all papers filed in support thereof,  
28 having found that notice of the Motion was adequate and proper, and good cause appearing, it is

1 ORDERED THAT:

2 1. The Motion is granted in its entirety.

3 2. Without limiting the generality of the foregoing:

4 a. The Trustee, solely in his capacity as the Trustee for the Debtor's estate, is  
5 authorized to:

6 i. enter into the PFA or PFAs, substantially similar to the form  
7 attached as Exhibit "2" to the Motion;

8 ii. grant the Finance Company or their successors or assigns a first  
9 priority lien on and security interest in the down payment and unearned premiums as described in  
10 the PFA;

11 iii. timely make all payments due under the PFA.

12 b. The lien granted to the Finance Company in the down payment and unearned  
13 premiums is senior to the lien of any other secured parties in this case in the down payment and  
14 unearned premiums.

15 c. If additional premiums become due to insurance companies under the  
16 policies financed under the PFA, the Trustee, or any successor trustee, and the Finance Company  
17 or their successors or assigns are authorized to modify the PFA as necessary to pay the additional  
18 premiums without the necessity of further hearing or order of this Court.

19 d. In the event that the Trustee does not make any of the payments under this  
20 order or the PFA as they become due, the automatic stay shall automatically be lifted to enable the  
21 Finance Company and/or any insurance companies providing the protection under the Insurance  
22 Policies, to take all steps necessary and appropriate to cancel the Insurance Policies, collect the  
23 collateral and apply such collateral to the indebtedness owed to the Finance Company.

24 e. In the event that returned or unearned premiums or other amounts due under  
25 the Insurance Policies are insufficient to pay the total amount owing to the Finance Company, any  
26 remaining amount owing to the Finance Company, shall be an allowed claim in this case with  
27 priority as an administrative expense pursuant to Section 503(b)(1) of the Bankruptcy Code.  
28

1 f. The PFA and the liens and any security interests in the down payment and  
2 unearned premiums granted pursuant hereto shall continue in full force and effect, and the  
3 indebtedness due under the PFA shall remain due and owing from the Debtor notwithstanding: (i)  
4 the dismissal or closure of this bankruptcy, or (ii) the confirmation of a plan of reorganization.

5 3. The Court finds that the indebtedness incurred and lien afforded to secure that  
6 indebtedness, have been obtained in good faith within the meaning of Section 364(e) of the  
7 Bankruptcy Code.

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EXHIBIT 2





# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
12/19/2019

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

**IMPORTANT:** If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

<b>PRODUCER</b> AMA Insurance Services 8300 Ulca Ave Suite 193  Rancho Cucamonga CA 91730		<b>CONTACT NAME:</b> Robert Burns <b>PHONE (A/C, No. Ext):</b> 951-538-0227 <b>FAX (A/C, No):</b> 888-231-1392 <b>E-MAIL:</b> ROBERTBURNS@RBRISK.COM <b>ADDRESS:</b>																						
<b>INSURED</b> HVI CAT Canyon, Inc. 2617 Clark Ave  Santa Maria CA 93455		<table border="1"> <thead> <tr> <th colspan="2">INSURER(S) AFFORDING COVERAGE</th> <th>NAIC #</th> </tr> </thead> <tbody> <tr> <td>INSURER A:</td> <td>Markel International Ins. Co.</td> <td>38970</td> </tr> <tr> <td>INSURER B:</td> <td>Markel International Ins. Co.</td> <td>38970</td> </tr> <tr> <td>INSURER C:</td> <td>Underwriters at Lloyd's</td> <td>AA1122000</td> </tr> <tr> <td>INSURER D:</td> <td>State Compensation Insurance fund</td> <td>35076</td> </tr> <tr> <td>INSURER E:</td> <td></td> <td></td> </tr> <tr> <td>INSURER F:</td> <td></td> <td></td> </tr> </tbody> </table>		INSURER(S) AFFORDING COVERAGE		NAIC #	INSURER A:	Markel International Ins. Co.	38970	INSURER B:	Markel International Ins. Co.	38970	INSURER C:	Underwriters at Lloyd's	AA1122000	INSURER D:	State Compensation Insurance fund	35076	INSURER E:			INSURER F:		
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INSURER E:																								
INSURER F:																								

**COVERAGES** **CERTIFICATE NUMBER:** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	GENERAL LIABILITY		JCGL101324-01	12/01/2019	12/01/2020	EACH OCCURRENCE \$ 1,000,000
	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY					DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 1,000,000
	<input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR					MED EXP (Any one person) \$ 10,000
	GEN'L AGGREGATE LIMIT APPLIES PER:					PERSONAL & ADV INJURY \$ 1,000,000
	<input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC					GENERAL AGGREGATE \$ 2,000,000
	AUTOMOBILE LIABILITY					PRODUCTS - COMP/OP AGG \$ 2,000,000
	ANY AUTO					COMBINED SINGLE LIMIT (Ea accident) \$
	ALL OWNED AUTOS	<input type="checkbox"/> SCHEDULED AUTOS				BODILY INJURY (Per person) \$
	HIRED AUTOS	<input type="checkbox"/> NON-OWNED AUTOS				BODILY INJURY (Per accident) \$
						PROPERTY DAMAGE (Per accident) \$
						\$
B	UMBRELLA LIAB <input checked="" type="checkbox"/> EXCESS LIAB	<input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS-MADE	JUMB100555-01	12/01/2019	12/01/2020	EACH OCCURRENCE \$ 5,000,000
	DED <input checked="" type="checkbox"/> RETENTION \$ 100,000					AGGREGATE \$ 5,000,000
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY					Personal & Adv Injury \$ 5,000,000
D	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)	Y/N <input type="checkbox"/> N/A	9223783-19	12/01/2019	12/01/2020	<input checked="" type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER
	If yes, describe under DESCRIPTION OF OPERATIONS below					E.L. EACH ACCIDENT \$ 1,000,000
						E.L. DISEASE - EA EMPLOYEE \$ 1,000,000
						E.L. DISEASE - POLICY LIMIT \$ 1,000,000
C	Property Insurance		E170915-01	12/21/2019	12/21/2020	Property Schedule \$ 4,800,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)  
Certificate holder is an Additional interest party.

## CERTIFICATE HOLDER

United States Trustee

725 S. Figueroa Street  
Los Angeles CA 90017

## CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE  
*Robert Burns*

ACORD 25 (2010/05)

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028

EXHIBIT

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EXHIBIT 3

**South Bay Acceptance Corp.**

PO Box 639299  
Cincinnati, OH 45263-9299

**License No. 1851**

Tel: 800-393-2012

Fax: 888-328-6747

Account Type: Commercial

Page 1 of 6

SBAC-FF-1 (11/93)

**PREMIUM FINANCE AGREEMENT AND DISCLOSURE STATEMENT**

Subject to the acceptance of this agreement at PO Box 639299 Cincinnati, OH, by South Bay Acceptance Corp., herein referred to as "The Finance Company" the creditor in this transaction, and in consideration of the premium payments to be made by The Finance Company the undersigned, jointly and severally, promise to pay to The Finance Company at its office in PO Box 639299 Cincinnati, OH the total of payments in accordance with the payment schedule shown below.

INSURED - NAME AND ADDRESS - GIVE ALL NAMES IN POLICIES

HVI CAT CANYON INC  
2617 E CLARK AVE.  
SANTA MARIA, CA 93455-5815

AGENT - NAME AND ADDRESS

A McNERNEY & ASSOC. INS. SERVICES (7878)  
8300 UTICA AVE., SUITE# 194  
RANCHO CUCAMONGA, CA 91730

PHONE: 909-483-9900

FAX: 909-483-9949

Inception Date	Expiration Date	Policy Prefix/ Number	Type of Coverage	Insurance Company, General Agent & Address	Premium Details
12/1/2019	12/1/2020	TBD	COMMERCIAL LIABILITY	MARKEL INTERNATIONAL INS. CO. (MARKEL) 1821 WALDEN SQUARE #210 SCHAUMBERG, IL 60173 CRC (CRC) PO BOX 95236 GRAPEVINE, TX 76099	<b>Premium:</b> \$87,405.00 <b>Policy Fee:</b> \$750.00 <b>Broker Fee:</b> \$1,000.00 <b>Tax/Stamp:</b> \$2,820.96 <b>Inspection:</b> \$1,500.00

ADDITIONAL POLICIES CAN BE FOUND ON PAGE 3

**Total Premium:** \$150,976.40

**Down Payment:** \$46,013.90

**Amount Financed:** \$104,962.50

**FEDERAL TRUTH-IN-LENDING STATEMENT**

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS	YOUR PAYMENT SCHEDULE WILL BE		
The cost of your credit as a yearly rate	The dollar amount the credit will cost you	The amount of credit provided to you on your behalf	The amount you will have paid after you have made all payments as scheduled	NUMBER OF PAYMENTS	AMOUNT OF PAYMENT	WHEN PAYMENTS ARE DUE
7.99%	\$3,525.30	\$104,962.50	\$108,487.80	9	\$12,054.20	21st
				FIRST PAYMENT DUE		1/21/2020

The Amount Financed consists of entirely of the amount of credit that will be paid on your behalf for the policies listed in Schedule of Policies.

Security: You are giving a security interest in the policy(ies) listed here.

Late Charge: See SBAC-FF-2, Item number (6) six.

Prepayment: If you pay off early, you may be entitled to a refund of part of the finance charge. See page SBAC-FF-2 following.

Page SBAC-FF-2 contains the terms of the note and agreement. I agree to all provisions above and on page SBAC-FF-2.

NOTICE: 1. DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT OR IF IT CONTAINS ANY BLANK SPACE. 2. YOU ARE ENTITLED TO A COMPLETELY FILLED-IN COPY OF THIS AGREEMENT. 3. UNDER THE LAW, YOU HAVE THE RIGHT TO PAY OFF IN ADVANCE THE FULL AMOUNT DUE UNDER CERTAIN CONDITIONS TO OBTAIN A PARTIAL REFUND OF THE FINANCE CHARGE. 4. INSURED WARRANTS: (A) TO HAVE EXECUTED THIS AGREEMENT AND RECEIVED A COPY THEREOF; (B) IF THE INSURED IS A CORPORATION, THAT THE UNDERSIGNED IS AN OFFICER OF SAID CORPORATION AUTHORIZED TO SIGN THIS AGREEMENT; (C) IF THE INSURED IS NOT A CORPORATION, AUTHORIZED INSURED(S) HAVE SIGNED. 5. ~~THE UNDERSIGNED HEREBY REPRESENTS AND WARRANTS THAT IT IS NOT A DEBTOR OR DEBTOR IN POSSESSION PURSUANT TO 11 U.S.C. 101 ET. SEQ. (THE BANKRUPTCY CODE) AND THAT THE EXECUTION OF THIS AGREEMENT DOES NOT REQUIRE COURT OR GOVERNMENTAL APPROVAL OR AUTHORIZATION. THE UNDERSIGNED FURTHER REPRESENTS AND WARRANTS THAT IT IS SOLVENT AND NOT A PARTY TO ANY INSOLVENCY PROCEEDING.~~

**Signature-Insured or Duly Authorized Agent**

**Date**

**Signature-Insured**

**Date**

NOTICE: SEE PAGE SBAC-FF-2 FOR ADDITIONAL PROVISIONS SPECIFICALLY INCLUDED IN THE AGREEMENT

**WARRANTY AND AGREEMENT**

The undersigned warrants: 1. That the insured received a copy of this agreement. 2. That this agreement evidences a bona fide legal indebtedness. 3. This agreement is without recourse on the Producer unless amended by a duly executed Letter of Responsibility. 4. Producer warrants that the insurance described above has been ordered by the Insured Buyer, has been placed with the insurance company(ies), the information shown in the schedule of policies is correct, the cash down payment indicated above has been collected (in good funds) and the Producer has paid or will pay that down payment plus any funds advanced by The Finance Company to the insurance company(ies) in order to assure that the policy(ies) listed herein are put into effect on the dates as indicated. 5. If Insured Buyer has not signed the agreement, Producer certifies that he/she has been fully and lawfully authorized to sign this agreement by and on behalf of Insured Buyer. 6. The undersigned Producer will receive from LENDER \$ \$0.00 for aiding in administration of premium finance agreement relating to the above premiums. (Quote Q936224.1 ) Type: Renewal

**(PRODUCER'S) SIGNATURE AND DATE**

029

**EXHIBIT**

**3**

SBAC-FF-2

**TERMS AND CONDITIONS**

Page 2 of 6

WITNESSETH: That in consideration of the payment by the Finance Company to the respective insurance companies, or their agents, of the balance of the premiums upon the policies of insurance herein before described on page SBAC-FF-1 (which policies have been issued and delivered to the Assured at his request), the Assured promises to pay the Finance Company the amount shown in the completed schedule on page SBAC-FF-1 under the caption "Total of Payments," with Finance Charge (service charge) thereon as in said Schedule provided; and the Assured agrees with the Finance Company as follows:

1. The Assured assigns as security for the total amount payable hereunder any and all unearned premiums and dividends which may become payable under the policies listed on page SBAC-FF-1.
2. The Assured hereby irrevocably appoints the Finance Company its attorney-in-fact with full authority to cancel the policies listed on page SBAC-FF-1, for nonpayment.  
The insurance companies listed on page SBAC-FF-1 are hereby authorized and directed, upon the request of the Finance Company, to cancel said policies and to pay the Finance Company the unearned or return premiums thereon without proof of default hereunder or breach hereof or of the amount owing hereunder. The Assured appoints the Finance Company its attorney-in-fact to endorse its name to any check or draft for all monies that may become due from the insuring company(ies) and any sum received from an insurance company shall be credited to the balance due hereunder and if there is any excess of at least one dollar (\$1.00) over the balance due, it should be paid to the Assured. The Assured shall remain liable for any deficiency together with interest thereon at the highest allowable legal rate.
3. If policy is not issued at the time this agreement is executed, the Assured gives the Finance Company authority to fill in the name of the insuring company, policy number and the due date of the first payment. The Assured understands and agrees that if the actual premiums are other than as indicated, this agreement may be amended to reflect the actual premiums, amount financed and finance charge, and that the Assured will make an additional down payment, if required, with ten (10) days notice thereof.
4. The Assured agrees that default in payment of any installment hereof for a period of ten (10) days shall be deemed a default in the contract, and the total amount due under the contract shall be due and payable. The Assured agrees to pay a reasonable attorney fee not to exceed 20% of the amount due and payable under this agreement if it is referred for collection to any attorney not a salaried employee of the Finance Company.
5. No waiver by the Finance Company of any default shall be construed as a waiver for any other subsequent default nor impair or affect any rights or for non-payment. The insurance companies listed on page SBAC-FF-1 are hereby authorized and directed, upon the request of the Finance Company, to cancel said policies and to pay the Finance Company the unearned or return premiums thereon without proof of default hereunder or breach hereof or of the amount owing hereunder. The Assured appoints the Finance Company its attorney-in-fact to endorse its name to any check or draft for all monies that may become due from the insuring company(ies) and any sum received from an insurance company shall be credited to the balance due hereunder and if there is any excess of at least one dollar (\$1.00) over the balance due, it should be paid to the Assured. The Assured shall remain liable for any deficiency together with interest thereon at the highest allowable legal rate.
6. Time being the essence of this contract, upon default in any payment hereunder, and such default continuing for ten (10) days, the Assured agrees to pay a delinquency and collection charge of 5% of scheduled payment, but never less than on dollar (\$1.00) on each installment in default. The Assured understands and agrees that default in payment of any installment hereof for a period of ten (10) days shall be deemed to be a request for cancellation of the policies listed on page SBAC-FF-1.
7. The assured will receive a refund credit of part of the finance charge if the assured voluntarily prepays the outstanding debt in full before the last installment due date according to Section 18629 of the Financial Code. The assured will also receive a refund credit of part of the finance charge if the maturity of the loan is accelerated for any reason according to Section 19642 of the Financial Code. The methods for computing these refund credits are stated below.
  - a) Voluntary Prepayment -
    - (i) If prepayment in full is made during the first three months and 15 days after the earliest insurance policy effective date as shown on the front of the contract, South Bay Acceptance corporation will compute a finance charge by multiplying the agreed rate of charge as stated at the end of this Agreement by the unpaid principal balances for the number of days from the earliest policy effective date to the date of prepayment in full, South Bay Acceptance will apply each payment made by the assured first to finance charge then to principal. South Bay Acceptance will then subtract this actual finance charge from the finance charge shown in the finance charge box on page 1 of this agreement to obtain a refund credit.
    - (ii) If prepayment in full is made more than three months and 15 days after the earliest insurance policy effective date, the refund credit shall be computed by the Rule of 78s method.
    - (iii) All contracts shall be subject to a minimum finance charge of \$25.00.
  - (b) Acceleration of Maturity -  
If payment of the unpaid balance of the loan to South Bay Acceptance is accelerated for any reason, South Bay Acceptance Corp. shall make the same refund as if this loan contract was paid in full on the date of acceleration. Paragraph 7(a) states the method of computing the refund or credit. The unpaid balance remaining after subtracting the refund or credit shall be treated as the unpaid principal balance. The assured agrees to pay South Bay Acceptance Corp. on the unpaid principal balance interest computed at the agreed rate of charge stated at the end of this Agreement until South Bay Acceptance Corp. is actually paid in full.
8. The Assured hereby releases and discharges and agrees to hold harmless the Finance Company and each holder hereof, their officers, agents and employees from any liability or cause of action by reason of any cancellation, when such cancellation is in conformance with the provisions of the Statutes of the State in which contract was issued. The Assured agrees that any payment received after cancellation will be applied to reduce the indebtedness and will not reinstate the policy where cancellation notice has been mailed by the Finance Company. Finance Company, at its option, may request reinstatement of the policies when such payments are received, however reinstatement is up to the insurance company, at its sole discretion.
9. In the event that a payment made by check or draft is returned because of insufficient funds to pay it, the Assured agrees to pay the Finance Company a charge of fifteen dollars (\$15.00) and such amount will be added to the stated amount of the contract and shall become subject to all provisions herein.
10. This contract is subject to approval and acceptance by the Finance Company and if not approved and accepted it is to be promptly returned. Issuing checks for the policies listed on page SBAC-FF-1 to the agent or insurer or paying a draft will be considered acceptance.
11. This contract may be assigned and the holder or assignee has the same rights as the Finance Company.
12. Please take notice that the Premium Finance Company named on the front of the contract, in consideration of premium advances made or to be made, holds an assignment of all unearned premiums on the above described policy, including power of attorney to cancel if Premium Finance Company is not notified within five (5) days by Insurance Company. Premium Finance Company assumes that this Notice of Assignment is acceptable and the information on the front of the contract is correct.

**The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of sex or marital status. The Federal agency which administers compliance with this law concerning this Premium Finance Company is the Federal Trade Commission, 11000 Wilshire Boulevard, Suite 13209, Los Angeles, CA 90024.**

**FOR INFORMATION, CONTACT THE DEPARTMENT OF FINANCIAL INSTITUTIONS STATE OF CALIFORNIA.  
NOTICE: SEE PAGE SBAC-FF-1 FOR IMPORTANT INFORMATION.**



SBAC-FF-3

**South Bay Acceptance Corp.**

PO Box 639299  
Cincinnati, OH 45263-9299

Page 3 of 6

**ADDITIONAL POLICIES**

Tel: 800-393-2012  
Fax: 888-328-6747  
Account Type: Commercial

INSURED - NAME AND ADDRESS - GIVE ALL NAMES IN POLICIES

HVI CAT CANYON INC  
2617 E CLARK AVE.  
SANTA MARIA, CA 93455-5815

AGENT - NAME AND ADDRESS

A McNERNEY & ASSOC. INS. SERVICES (7878)  
8300 UTICA AVE., SUITE# 194  
RANCHO CUCAMONGA, CA 91730

PHONE: 909-483-9900

FAX: 909-483-9949

Inception Date	Expiration Date	Policy Prefix/ Number	Type of Coverage	Insurance Company, General Agent & Address	Premium Details
12/1/2019	12/1/2020	TBD	EXCESS LIABILITY	MARKEL INTERNATIONAL INS. CO. (MARKEL) 1821 WALDEN SQUARE #210 SCHAUMBERG, IL 60173 CRC (CRC) PO BOX 95236 GRAPEVINE, TX 76099	<b>Premium:</b> \$25,545.00 <b>Policy Fee:</b> \$750.00 <b>Broker Fee:</b> \$0.00 <b>Tax/Stamp:</b> \$841.44 <b>Inspection:</b> \$0.00
12/21/2019	12/21/2020		COMMERCIAL PROPERTY	Lloyds of London (22) 3560 Daventry Lane Kennesaw, GA 30144  WORLDWIDE FACILITIES INC.-IRVINE (WORLDWIDE) 725 S. FIGUEROA ST. 19TH FL LOS ANGELES, CA 90017	<b>Premium:</b> \$27,000.00 <b>Policy Fee:</b> \$1,000.00 <b>Broker Fee:</b> \$0.00 <b>Tax/Stamp:</b> \$864.00 <b>Inspection:</b> \$1,500.00
					<b>Premium:</b> <b>Policy Fee:</b> <b>Broker Fee:</b> <b>Tax/Stamp:</b> <b>Inspection:</b>
					<b>Premium:</b> <b>Policy Fee:</b> <b>Broker Fee:</b> <b>Tax/Stamp:</b> <b>Inspection:</b>
					<b>Premium:</b> <b>Policy Fee:</b> <b>Broker Fee:</b> <b>Tax/Stamp:</b> <b>Inspection:</b>
					<b>Premium:</b> <b>Policy Fee:</b> <b>Broker Fee:</b> <b>Tax/Stamp:</b> <b>Inspection:</b>
					<b>Premium:</b> <b>Policy Fee:</b> <b>Broker Fee:</b> <b>Tax/Stamp:</b> <b>Inspection:</b>
					<b>Premium:</b> <b>Policy Fee:</b> <b>Broker Fee:</b> <b>Tax/Stamp:</b> <b>Inspection:</b>
					<b>Premium:</b> <b>Policy Fee:</b> <b>Broker Fee:</b> <b>Tax/Stamp:</b> <b>Inspection:</b>

EXHIBIT 4

HVI CAT CANYON INC. WORKING DRAFT 6-Week Cash Flow Forecast		Forecast Week 21 16-Dec-19	Forecast Week 22 23-Dec-19	Forecast Week 23 30-Dec-19	Forecast Week 24 6-Jan-20	Forecast Week 25 13-Jan-20	Forecast Week 26 20-Jan-20	6-Week TOTAL
Beginning Cash Balance		-	-	-	-	-	-	-
1	Cash Inflows (*)							
	SMV	-	-	-	-	-	673,139	673,139
	Redu	-	-	-	-	-	53,361	53,361
	Belridge	-	-	-	-	-	40,041	40,041
	Total Cash Inflows	-	-	-	-	-	766,541	766,541
2	Royalties	-	-	-	-	-	(41,150)	(41,150)
3	Escrow Royalties(**)	-	-	-	-	-	(7,914)	(7,914)
	Total Net Cash Inflows	-	-	-	-	-	717,477	717,477
	Cash Outflows							
	Operating Expenses							
	Payroll Checks	76,000	-	76,000	-	76,000	-	228,000
	Payroll Taxes	-	26,000	-	26,000	-	26,000	78,000
	Garnishment & Child Supports	1,500	-	1,500	-	1,500	-	4,500
4	Surface Rents	5,600	-	62,548	-	-	-	68,148
5	Consultants	15,100	-	15,100	-	15,100	-	45,300
6	Phones	2,500	-	2,500	-	2,500	-	7,500
7	Power PG&E	155,000	-	-	183,333	-	-	338,333
8	Power SoCalEdison	-	-	-	17,500	-	-	17,500
	Waste Management	500	-	1,500	500	1,500	500	4,500
	Water	2,500	2,000	1,500	1,000	2,500	2,000	11,500
	SouthernCalGas	150	75	-	-	150	75	450
	Portable Restrooms	1,500	1,500	-	-	1,500	1,500	6,000
	Alarms	425	-	-	-	425	-	850
	Cafeteria	250	-	-	-	250	-	500
	Copies	250	-	-	-	250	-	500
9	Chemicals	10,000	5,000	10,000	5,000	10,000	5,000	45,000
10	Pumps	5,000	10,000	5,000	10,000	5,000	10,000	45,000
11	Gasoline	12,500	12,500	12,500	12,500	12,500	12,500	75,000
12	Transportation	22,400	-	26,900	12,000	22,400	4,500	88,200
13	Vacuum Trucks	25,000	-	25,000	-	25,000	-	75,000
14	LCR	104,000	-	-	-	-	450,000	554,000
15	Electricians	5,000	5,000	5,000	5,000	5,000	5,000	30,000
16	Welders	5,000	5,000	5,000	5,000	5,000	5,000	30,000
17	Supplies (Belts-Parts, Labor)	4,000	4,000	4,000	4,000	4,000	4,000	24,000
18	Parts (Compressor, Pipe, others)	2,500	5,000	2,500	5,000	2,500	5,000	22,500
19	Clean Chemical towers	-	-	3,000	-	3,000	-	6,000
20	Vehicle maintenance	5,000	5,000	-	5,000	-	5,000	20,000
	Drink Water	-	-	-	500	-	-	500
21	Weed abatement	10,000	10,000	10,000	10,000	10,000	10,000	60,000
22	Well Analysis	-	6,000	6,000	6,000	6,000	6,000	30,000
23	Compliance	15,000	10,000	15,000	10,000	15,000	10,000	75,000
24	SBP - APCD	-	-	85,000	-	-	-	85,000
25	SBP - P&D	-	-	-	-	-	-	-
26	SBP - FD	-	-	-	-	-	-	-
27	SBP - EHS	-	-	-	-	-	-	-
	SBP - Tax	-	-	-	-	-	-	-
	OC - Tax	-	-	-	-	-	-	-
	KC - Tax	-	-	-	-	-	-	-
28	Escrow - Surface Rents(**)	-	-	7,500	-	-	-	7,500
29	Netherland and Sewell Reserve Report	25,000	20,000	-	-	-	-	45,000
30	GSI Phase 1 Environmental Study	46,000	-	-	-	-	-	46,000
31	Backoffice & Administrative	90,000	-	-	60,000	-	-	150,000
	Total Operating Expenses	647,675	127,075	383,048	378,333	227,075	562,075	2,325,281
	Net Operating Profit	\$ (647,675)	\$ (127,075)	\$ (383,048)	\$ (378,333)	\$ (227,075)	\$ 155,402	(1,607,804)

HVI CAT CANYON INC.		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	6-Week
WORKING DRAFT 6-Week Cash Flow Forecast		Week 21	Week 22	Week 23	Week 24	Week 25	Week 26	TOTAL
week starting		16-Dec-19	23-Dec-19	30-Dec-19	6-Jan-20	13-Jan-20	20-Jan-20	
Beginning Cash Balance		-	-	-	-	-	-	-
Total Health and Safety & Deferred Maintenance								
32	Health and Safety							
	SMV Health and Safety	56,000	16,000	33,000	40,000	12,000	-	157,000
	Belridge Health and Safety	20,000	3,000	3,000	-	-	30,000	56,000
	Redu Health and Safety	16,000	40,000	1,000	25,000	-	65,000	147,000
	Total Health and Safety	92,000	59,000	37,000	65,000	12,000	95,000	360,000
33	Deferred Maintenance	60,000	-	-	-	-	-	60,000
	Total Health and Safety & Deferred Maintenance	152,000	59,000	37,000	65,000	12,000	95,000	420,000
	Bank Charges & fees	100	-	100	-	100	-	300
34	Insurances	-	-	-	9,879	-	-	9,879
	Chapter 11 Trustee and his Professionals	131,994	127,544	114,894	118,994	93,994	91,894	679,314
35	Unsecured Creditor Committee Professionals	-	-	50,000	-	35,000	-	85,000
	U.S. Trustee Payment	-	-	25,000	-	-	-	25,000
36	Interest	-	-	-	-	-	-	-
	Bankruptcy Related Expenses	132,094	127,544	189,994	128,873	129,094	91,894	799,493
	Total Cash Outflows	931,769	313,619	610,042	572,207	368,169	748,969	3,544,775
	Net Cash Flow	(931,769)	(313,619)	(610,042)	(572,207)	(368,169)	(31,492)	(2,827,297)
	Beginning Cash Balance	-	-	-	-	-	-	-
	Net Cash Flow	(931,769)	(313,619)	(610,042)	(572,207)	(368,169)	(31,492)	(2,827,297)
	Net Borrowing/(Pay Down)	931,769	313,619	610,042	572,207	368,169	31,492	2,827,297
	Ending Cash Balance	-	-	-	-	-	-	-
	Loan Balance	4,342,041	4,655,660	5,265,702	5,837,908	6,206,077	6,237,569	6,237,569
(*)Forecast depend on actual delivered barrels and price								
(**) Not approved under Interim Cash Collateral Order								
1	Forecast dependent on actual volume of delivered barrels, price and gravity adjustments. The price per barrel is calculated for Santa Maria Valley using the average price per barrel posted by Chevron, Union 76, Exxon and Shell for Midway Sunset crude less \$5. The price per barrel for Redu is calculated using the average price per barrel posted by the same 4 corporations for Buena Vista crude less \$5.75. The price per barrel for Belridge is calculated using the average price per barrel posted by the same 4 corporations for Buena Vista crude less \$0.75. All pricing is subject to adjustments based upon the gravity of the oil produced. The prior month's revenue is collected on the 20th of the following month.							
2	In aggregate, monthly royalties are approximately 13% of production which is approximately 1 month's revenue less the LCR shipments.							
3	Escrow Royalties are based upon an Insider's 2.5% overriding royalty on 1 month's production which is approximately 1 month's revenue less the LCR shipments.							
4	Surface Rent Sub schedule							
	Surface Lease Owner:	Amount	Timing					
	Boisseranc	\$ 11,956	Due on the 1st of each month					
	Buganko	\$ 14,878	Due on the 1st of the month.					
	Medema (1/2) Thomson (1/4) (- McLaughlin (1/4)	\$ 7,500	Due on the 1st of each month					
	(3) Etchandy family members	\$ -	Lease to be rejected, no amount due					
	State College, LLC (Evelyn Roper)	\$ 1,581	\$1,581.33 due on an annual basis - has been paid for 2019.					
	Adam Family Trust	\$ -	No amount due					
	Orcutt Fee, LLC	\$ 5,000	\$5,000 due on an annual basis - has been paid for 2019.					
	Marianne Friedl	\$ 3,700	\$3,700 due on an annual basis - has been paid for 2019.					
	C.M.T LLC	\$ 100	\$100 will be due in January 2020.					
	Manfred Sander	\$ 6,800	Due before the end of October 2019					
	E & B Natural Resources	\$ -	Under review, no amount currently due					
	Grundoon, LLC (Firestone)	\$ 7,500	Due on the 1st of each month					
	Morganti Ranch	\$ 5,500	\$5,500 on a monthly basis- lease is currently shut-in, no amount due.					
	Morganti Ranch	\$ -	Under review, no amount currently due					
	Morganti Ranch	\$ -	Under review, no amount currently due					
	Railroad	\$ 454	\$454 due in December 2019					
	(4) Righetti family members	\$ 3,000	\$3,000 per quarter, next payment due in December 2020					
	(3) Judy A. Rogers, Ronald H. Souza, Jr., Michael J. Souza	\$ 750	\$750 due in January 2020					



HVI CAT CANYON INC.		Forecast	Forecast	Forecast	Forecast	Forecast	6-Week
WORKING DRAFT 6-Week Cash Flow Forecast		Week 21	Week 22	Week 23	Week 24	Week 25	TOTAL
week starting		16-Dec-19	23-Dec-19	30-Dec-19	6-Jan-20	13-Jan-20	20-Jan-20
Beginning Cash Balance		-	-	-	-	-	-
Roland and Sandy Miller		\$ 300	\$300 due in December 2019				
Multiple Bradley Lands		\$ -	No amount due in October or November 2019				
		\$ 69,019					
HVI pays the following 3 consultants on a biweekly basis including a \$3k increase to William LaFleur and a catch up payment for unpaid amounts due to him in week 21. In process of potentially engaging another consultant to vet Deferred Maintenance projects for \$3k on a bi-weekly basis starting in week 23:							
<u>Name and Description:</u>		<u>Amount:</u>					
i) William LaFleur - Landman		\$ 6,000					
ii) Innovative Consulting Solutions - production accountant		\$ 1,923					
iii) Alliance-Hydro - Geologist		\$ 4,085					
Total Amount due to Consultants		\$ 12,008					
Amounts include HVI's office line at their East Clarke office and cell phones for all field employees.							
Per adequate assurance order, \$28.3k deposit due in Weeks 20 and 24 and \$155k due prior to the 20th each month							
Amount due for prior month's power usage.							
Chemicals used for H2S removal that are critical to production - currently on COD terms with chemicals vendor							
Pump maintenance and rework costs that are critical to production.							
HVI makes daily gasoline purchases for the tankers used to haul oil and gas production with a weekly run rate of approximately \$12,500.							
Include 10,000 BBLs of Crude Storage per month and insurance and vehicle leasing costs for new trucks.							
Amount due to 2 new vacuum truck vendors recently employed to replace affiliate GTL1							
Assumes reduced LCR usage at \$75 per BBL while the initiatives to dehydrate crude are underway.							
The weekly run rate for electricians is approximately \$5k.							
The weekly run rate for welders is approximately \$5k.							
Assumes a weekly run rate of \$4k for supplies							
Assumes a weekly run rate of \$5k for parts							
Assumes a bi-weekly run rate of \$3k for H2S fluid starting week 23							
Assumes \$12-\$20kk monthly run rate for the maintenance costs for all oil field service vehicles, including rigs.							
Weekly run rate for critical safety and fire protection for HVI's 700+ wells and reduction of Notice of Violation ("NOV") fines. Currently understaffed in this area and run rate assumes increasing team size from 1 to approximately 2 five man teams.							
Targeted ongoing wellhead testing of highest production wells to better understand native gravity and water cut.							
Weekly run rate for critical compliance requirements such as SPC ("Spill Prevention and Countermeasure") plans and APCD ("Air Pollution and Control District") plans that need to be submitted before year-end to mitigate future fines and penalties from regulatory bodies.							
PAID IN WEEK 19 - Passed due post-petition Permit to Operate ("PTO") fees from the APCD for the following 13 HVI leases, excluding 1 lease quitclaimed to an insider. The following is subject to revision if additional permit fees for quitclaimed leases to insiders are identified:							
<u>Facility</u>		<u>Fee</u>					
Armellin Lease PTO No. 07775 - R8		\$ 7,895					
Battles Lease PTO No. 08219 - R11		\$ 7,323					
Bradley Lands/Bradely Consolidated Lease PTO No. 07053 - R11		\$ 41,123					
Continental Lease PTO No. 08222 - R11		\$ 5,425					
Cross Development Lease PTO No. 08863 - R9		\$ 458					
East Valley Farms Lease PTO No. 08864 - R9		\$ 458					
Fullerton Lease PTO No. 08868 - R13		\$ 7,551					
Jim Hopkins Lease PTO No. 09310 - R8		\$ 13,796					
Lakeview Gas Plant PTO No. 10108 - R8		\$ 38,032					
Lakeview Lease PTO No. 10096 - R8		\$ 7,385					
Los Flores PTO No. 07307 - R12		\$ 16,074					
McKenzie Lease PTO No. 10079 - R8		\$ 458					
Olean Lease PTO No. 10080 - R8		\$ 458					
Total due for APCD PTOs		\$ 146,436					
Excluded PTO fee due to a quitclaimed lease to an insider.							
Golco Lease PTO No. 10078 - R8		\$ 4,679					
PAID IN WEEK 19 - Amount is based upon the following County of Santa Barbara Planning and Development post-petition facility and lease inspection fees. Subject to revision if additional permit fees for quitclaimed leases to insiders are identified:							

HVI CAT CANYON INC.		Forecast	Forecast	Forecast	Forecast	Forecast	6-Week
WORKING DRAFT 6-Week Cash Flow Forecast		Week 21	Week 22	Week 23	Week 24	Week 25	TOTAL
week starting		16-Dec-19	23-Dec-19	30-Dec-19	6-Jan-20	13-Jan-20	20-Jan-20
Beginning Cash Balance							
<u>Account Number/Permit ID Number:</u>		<u>Amount:</u>					
Permit ID # 19ACB-00000-00914 for 500 post-petition un-		\$ 110,452					
inspected facilities							
19ACT-00880		\$ 210					
19ACT-00922		\$ 6,560					
19ACT-00920		\$ 10					
19ACT-00914		\$ 350					
19ACT-00921		\$ 6,280					
19ACT-00926		\$ 12,640					
19ACT-00928		\$ 9,032					
19ACT-00938		\$ 108					
19ACT-00930		\$ 10					
19ACT-00932		\$ 10					
19ACT-00934		\$ 108					
19ACT-00936		\$ 108					
19ACT-00887		\$ 262					
19ACT-00878		\$ 420					
19ACT-00877		\$ 210					
19ACT-00879		\$ 210					
19ACT-00881		\$ 220					
19ACT-00924		\$ 12,640					
Total due to P&D for inspection fees		\$ 159,843					
<b>PAID IN WEEK 19</b> - Amount is based upon the following Santa Barbara County Fire Department Post-Petition California Fire Code Inspection Permit Fees. Subject to revision if permits for additional quitclaimed leases to insiders are identified:							
<u>Site Name</u>		<u>Amount:</u>					
Battles		\$ 1,370					
Blochman		\$ 1,370					
Bell Gas Compressor		\$ 1,370					
Bell Lease		\$ 1,370					
Casmalia/Morganti		\$ 1,370					
Chamberlin B		\$ 1,370					
Chamberlin		\$ 1,370					
Davis B		\$ 1,370					
Davis		\$ 1,370					
Fullerton Lease		\$ 1,370					
Jim Hopkins		\$ 1,370					
Los Flores		\$ 1,370					
Total due for Fire Department CFC Permits		\$ 16,440					
<b>PAID IN WEEK 19</b> - Per Docket #308, Declaration of James Ray, California Unified Program Agency Supervisor for the Santa Barbara County Environmental Health Services ("EHS"), amounts due for the following Santa Barbara Post-petition Environmental Health Services Permit Fees - <i>originally forecast to be distributed in week 2</i> :							
<u>Permit ID:</u>		<u>Permit Fee for 2020:</u>					
FA0010063		\$ 1,857					
FA0010325		\$ 555					
FA0010326		\$ 555					
FA0011176		\$ 555					
FA0011177		\$ 555					
FA0012015		\$ 555					
FA0012328		\$ 555					
FA0012329		\$ 555					
FA0012330		\$ 555					
FA0012495		\$ 555					
FA0013065		\$ 555					
FA0013112		\$ 555					
FA0013113		\$ 555					
FA0013114		\$ 555					
FA0013136		\$ 555					
FA0015899		\$ 848					
Total amount due for EHS permits		\$ 10,475					
Rent due on HVI East Clarke office - not approved under Interim Cash Collateral Order							
Chapter 11 Trustee negotiated a progress payment plan with Netherland & Sewell for a 2019 Reserve Report. The \$100-\$120k total fee can be paid on weekly basis for \$25k a week.							
Phase 1 Environmental Study per Credit Agreement forecasted to be completed in week 21.							

HVI CAT CANYON INC.	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	6-Week
WORKING DRAFT 6-Week Cash Flow Forecast	Week 21	Week 22	Week 23	Week 24	Week 25	Week 26	TOTAL
week starting	16-Dec-19	23-Dec-19	30-Dec-19	6-Jan-20	13-Jan-20	20-Jan-20	
Beginning Cash Balance	-	-	-	-	-	-	-

- 31 CGI will begin providing Backoffice support and this line item includes deposits and monthly dues per their contract.
- 32 13- weeks of Health and Safety Projects as defined in the 13-week health and safety budget. Week 1 of that budget is reforecast to begin in week 19
- 33 Deferred Maintenance projects to Dehydrate crude at 3 leases
- 34 Still waiting for confirmation on pricing for insurance on leased vehicles but the amount in week 24 represents the first installment of the HVI only renewed insurance plans.
- 35 Forecasted Fees for the Unsecured Creditors Committee Professionals in December is \$50k and \$35k a month going forward.
- 36 The Interest Rate for this portion of the DIP facility is still being determined

## PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 1901 Avenue of the Stars, Suite 450, Los Angeles, CA 90067-6006.

A true and correct copy of the foregoing document entitled (*specify*): TRUSTEE'S NOTICE OF MOTION AND MOTION FOR ORDER AUTHORIZING AND APPROVING INSURANCE PREMIUM FINANCE AGREEMENT; MEMORANDUM OF POINTS AND AUTHORITIES, DECLARATION OF MICHAEL A. MCCONNELL AND REQUEST FOR JUDICIAL NOTICE IN SUPPORT THEREOF will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

**1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF):** Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On December 24, 2019 I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

☒ Service information continued on attached page.

**2. SERVED BY UNITED STATES MAIL:** On December 24, 2019, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☒ Service information continued on attached page.

**3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL** (*state method for each person or entity served*): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on December 24, 2019, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

December 24, 2019  
Date

Beverly Lew  
Printed Name

  
Signature

ADDITIONAL SERVICE INFORMATION (if needed):

**1. SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING ("NEF")**

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## **2. SERVED BY U.S. MAIL**

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